
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Help Desk & Desktop Service Request for Proposals (RFP) Award

OVERVIEW

On Monday, April 12, 2010, the City Council is being asked to approve actions to authorize: 1) the Mayor to award the Help Desk and Desktop Support Services Contract to En Pointe Technologies, Inc.; 2) the Mayor to execute two two-year contract extension options with En Pointe Technologies, Inc.; and 3) the Chief Financial Officer to expend an amount not to exceed \$6,400,932 to provide funds for the contract and options in Fiscal Years 2011-2015.

The Purchasing and Contracting Department issued a Request for Proposals (RFP) in September 2009 for Help Desk and Desktop Services for the City, excluding the Police Department, with the goal to improve service levels and possibly reduce costs. Currently these services are provided by the San Diego Data Processing Corporation (SDDPC). The RFP requested extended service hours as well as value-added services, beyond current levels.

Nine proposals were received, evaluated and scored by a seven member team of City staff representing a cross-section of departments. Three finalists were selected for oral presentations. Site visits were also performed as part of the final assessment. SDDPC was one of the three finalists. Based on the evaluation, En Pointe Technologies was selected as the winning proposer. En Pointe will partner with a local San Diego-based company, Gray Systems, to provide desktop support. Due to the dollar value of the contract, City Council approval is required.

FISCAL/POLICY DISCUSSION

The IBA supports the use of competitive processes to achieve the best value in obtaining and providing City services funded with taxpayer dollars. Given the City's financial circumstances, the Mayor and City Council will continue to face difficult budgetary decisions on a regular basis for the foreseeable future. Cost saving proposals should be carefully evaluated and weighed against available alternatives. Opportunities for cost reductions and/or efficiency gains help to minimize budgetary deficits, and assist with preserving funding for high-priority services.

Budgetary Impacts of Contract Award

In December 2009, the City Council adopted resolutions to enact budgetary reductions for FY 2010 and approved a plan for FY 2011 for the General Fund Budget. These plans included reductions and mitigation measures to address a total deficit of \$179 million. Assumed in the plan was the reduction of \$3 million in FY 2011 in the area of information technology, expected to be achieved, in part, through a competitive bidding process begun in Fall 2009.

The proposed contract with En Pointe is estimated to save the City approximately \$1.1 million each year (starting in FY 2011), compared to the City's FY 2010 budgeted amount for similar services currently provided by SDDPC.

As noted in IBA Report No. 10-26 "Review of FY 2010 Mid-Year Budget Monitoring Report and Impact on the FY 2011 General Fund Budget", dated March 18, 2010, in the event City Council approval for the En Pointe contract is not received as recommended by City staff, additional budgetary actions will be needed to offset or mitigate the savings that were originally anticipated for FY 2011. The Mayor's Proposed FY 2011 Budget, scheduled to be released April 15, 2010, is expected to continue to assume these savings can be achieved.

While it is unfortunate that these cost savings may come at the expense of eliminated positions and personnel, it is our understanding that En Pointe has agreed to interview displaced SDDPC employees for any available positions.

Guiding Principles

In February 2010, the City Council adopted eleven guiding principles for the development of a Structural Budget Deficit Elimination Plan. Included in the principles is the pursuit of alternative service delivery methods, as specifically described in Guiding Principle #3:

Actively pursue alternative service delivery methods, including managed competition, efficiency improvements and elimination of service duplications.

The competitive selection process for IT procurement clearly matches the intent of the City's goals as described by the guiding principles, and comprises one element of a multi-faceted approach that will be necessary to achieve long-term structural budget reform. The IBA continues to support a balance of revenue and expenditure options for resolving the City's budget challenges and competitive procurement is one such option.

Proposed Contract Oversight

The IBA considered avenues to minimize potential impacts to the City if the selection of a new service provider had unintended and/or negative consequences because of changes in service approach or reduced performance levels. A contract oversight or monitoring team could be assembled utilizing executive level City staff, in conjunction with the IBA, to regularly review performance metrics and service issues, and provide monthly or quarterly reports to the Rules Committee. Creation of an oversight mechanism would allow the City Council to be alerted to any issues in a timely fashion, and to minimize negative impacts, if identified.

Future Council Approval for Contract Extensions

The requested actions include the approval of a one-year agreement with En Pointe, and the authorization to the Mayor to extend the agreement for two additional two-year periods, for a total possible contract term of five years. If desired, the Council could choose to authorize only the initial one-year agreement, and require subsequent Council approval for contract extensions. This would ensure additional Council involvement in the decision to continue the contractual relationship with En Pointe, and allow the Council to receive updates on actual contract performance before granting multi-year extensions.

Future Requests for Proposal for Competitive Procurement of IT Services

While Municipal Code Section 22.2311(d) requires the City to obtain City Council approval prior to *award* of a service contract over \$1 million (and a consulting contract in excess of \$250,000), City Council approval is *not* required prior to issuance of a Request for Proposals (RFP) regardless of the dollar amount or the service involved. The recent RFP process for Information Technology (IT) Help Desk Services was carried out consistent with this section of the Municipal Code in that the Council did not review the RFP in advance and is now being requested to approve the award of the Help Desk contract. The Mayor's Office will presumably follow this same process for the next phases of IT services procurement.

This is the City's first effort to competitively procure IT services. For the past 30 years these services have been provided by the SDDPC. This particular set of services is unique compared to most other City services because of the City's relationship with SDDPC as a private nonprofit corporation and not a City department. While the City Charter provides for City services to be delivered through alternative methods under the direction of the Mayor, many City services are currently provided by City operating

departments utilizing City employees in Classified or Unclassified Service. If department-provided services are competitively procured in the future, the process would be subject to either managed competition requirements (once in place) or alternative procurement processes as allowed under the City Charter or subject to meet and confer requirements set forth in Meyers-Milias-Brown Act where applicable.

A recommendation that City Council review and approve a preliminary statement of work in advance of future competitive procurement processes was proposed by the Independent Budget Analyst in 2008 and agreed upon by the Mayor's Office. The purpose was to ensure the Council's ability to carry out their duty per Charter Section 117(c) "to protect the quality and reliability of public services" when the City employs an independent contractor to provide services. In a May 2, 2008 memorandum and subsequent update to the City Council, the Mayor noted the following:

"As a first step, we will document service specifications for your review and approval, providing the opportunity for public input to the specification discussion. The service specifications will document the level of services currently provided by the City. This process will ensure that there will be no service degradation from moving City functions into the competition process. Following receipt of Council comments, the City will proceed with developing statements of work."

"A set of service specifications will be provided to the City Council....in advance of developing statements of work that will be the basis for the request for bids."

We would note that the Help Desk is a commonly outsourced IT service for a relatively small dollar amount that can be easily isolated from other IT services. However, future IT procurement phases are significantly more complex and costly. While we recommend that Council move forward with awarding the Help Desk to En Pointe, the successful bidder, we further recommend that the Council request the Mayor to bring to Council, for review and approval, the RFP's associated with the next phases of procurement of IT services prior to their issuance. This would be consistent with the intent of discussions that took place in 2008 as previously noted. This would allow the City Council to have a similar role in protecting the quality and reliability of IT services, similar to what is called for in Charter Section 117(c) for services currently provided by employees in Classified Service.

Competitive procurement processes require significant staff time as well as proposer resources. It is far better to involve all decision-makers at the front end in order to become aware of and attempt to resolve critical issues early on, rather than the end of the process- often too late to make desired adjustments. An unsuccessful procurement process is a waste of months of time, effort and resources for all parties involved including the taxpayers.

Future IT Services Subject to Competitive Procurement

The recently approved Master Services Agreement (MSA) with SDDPC contemplates the issuance of a series of RFPs for the various IT services provided by SDDPC. Additional RFPs are being considered for the areas of Telecommunications, including voice and data networks; Data Center; and Application Support.

Consideration could be given to weighing the effectiveness of consolidating the scope of work for the remaining IT services, instead of undergoing three separate and distinct competitive processes, as currently contemplated. Benefits likely exist for each course of action, and the Council may wish to further explore which option would provide the best results for the City. Consolidation of services in the competitive process could allow for economies of scale to be achieved, with a related reduction in overhead costs, but may also lead to fewer proposers and reduced competition, if the various services are considered to be truly distinct and requiring unrelated areas of expertise.

The Help Desk and Desktop Support function is considered a stand-alone and easily outsourced role that many organizations could provide, and is not unique to government entities. In addition, this area currently represents just 5% of the current SDDPC budget. However, the remaining functions to be subject to the RFP process may be more complex and may be inter-related, and increasing the number of service providers may introduce inefficiencies.

SDDPC has been given notice and has the opportunity to take appropriate actions to ready its operations to ensure it can successfully compete for the remaining and more significant IT functions that comprise its core business.

CONCLUSION

In adopting the Guiding Principles, the City has made a commitment to address its Structural Budget Deficit. Consistent with the principles, the IBA supports competitive procurement processes as a way to reduce City costs by pursuing alternative service delivery methods.

The IBA recommends City Council approval of the agreement with En Pointe, and has offered options to the Council for contract oversight, or subsequent Council approval for future contract extensions. In addition, the IBA recommends that the Council request the Mayor to bring to Council the RFPs associated with the next phases of procurement of IT services prior to their issuance for review and approval.

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